



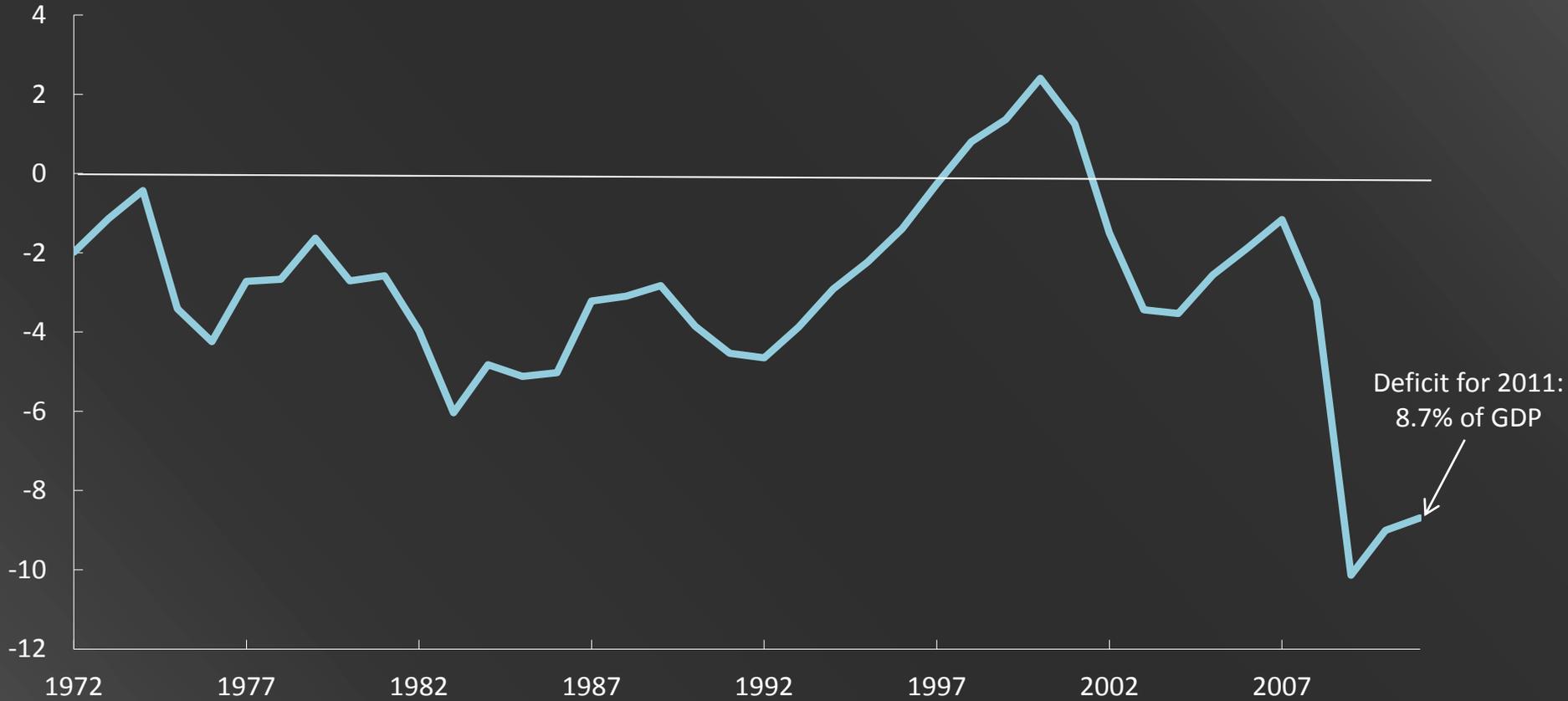
# The Federal Budget Outlook and Aid to States

Presentation to the National Lieutenant Governors Association

Jeffrey R. Kling  
Associate Director for Economic Analysis  
March 21, 2012

# Deficits or Surpluses, 1972 to 2011

(Percentage of GDP)



# What Policy Assumptions Underlie the Baseline and the Alternative Fiscal Scenario?

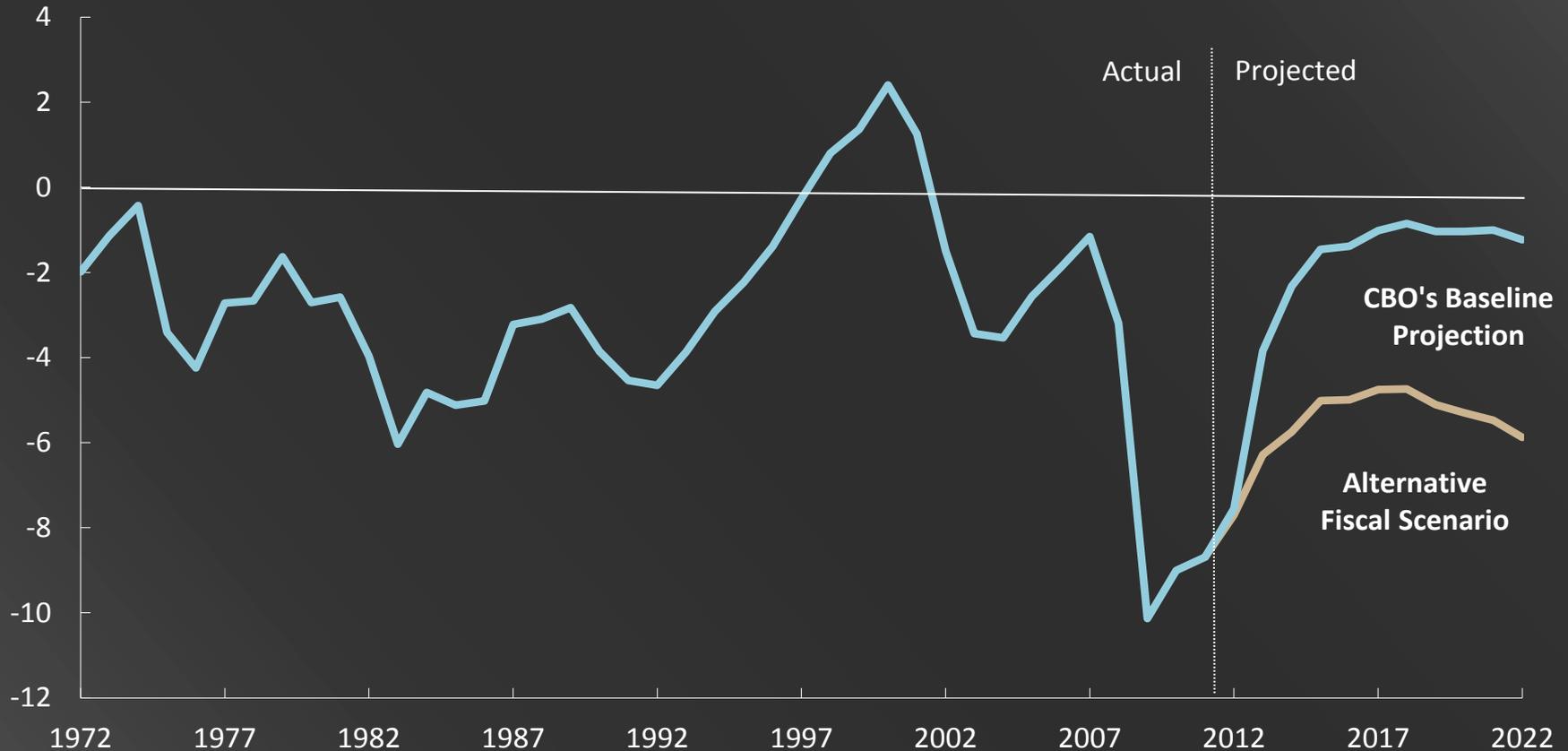
**Baseline Projections:** Generally, current law.

## **Alternative Fiscal Scenario:**

- All expiring tax provisions (other than the payroll tax reduction) are extended.
- The alternative minimum tax (AMT) is indexed for inflation after 2011.
- Medicare's payment rates for physicians' services are held constant at current level.
- The automatic spending reductions required by the Budget Control Act do not take effect (although the original caps on discretionary appropriations remain in place).

# Deficits or Surpluses, Actual and Projected

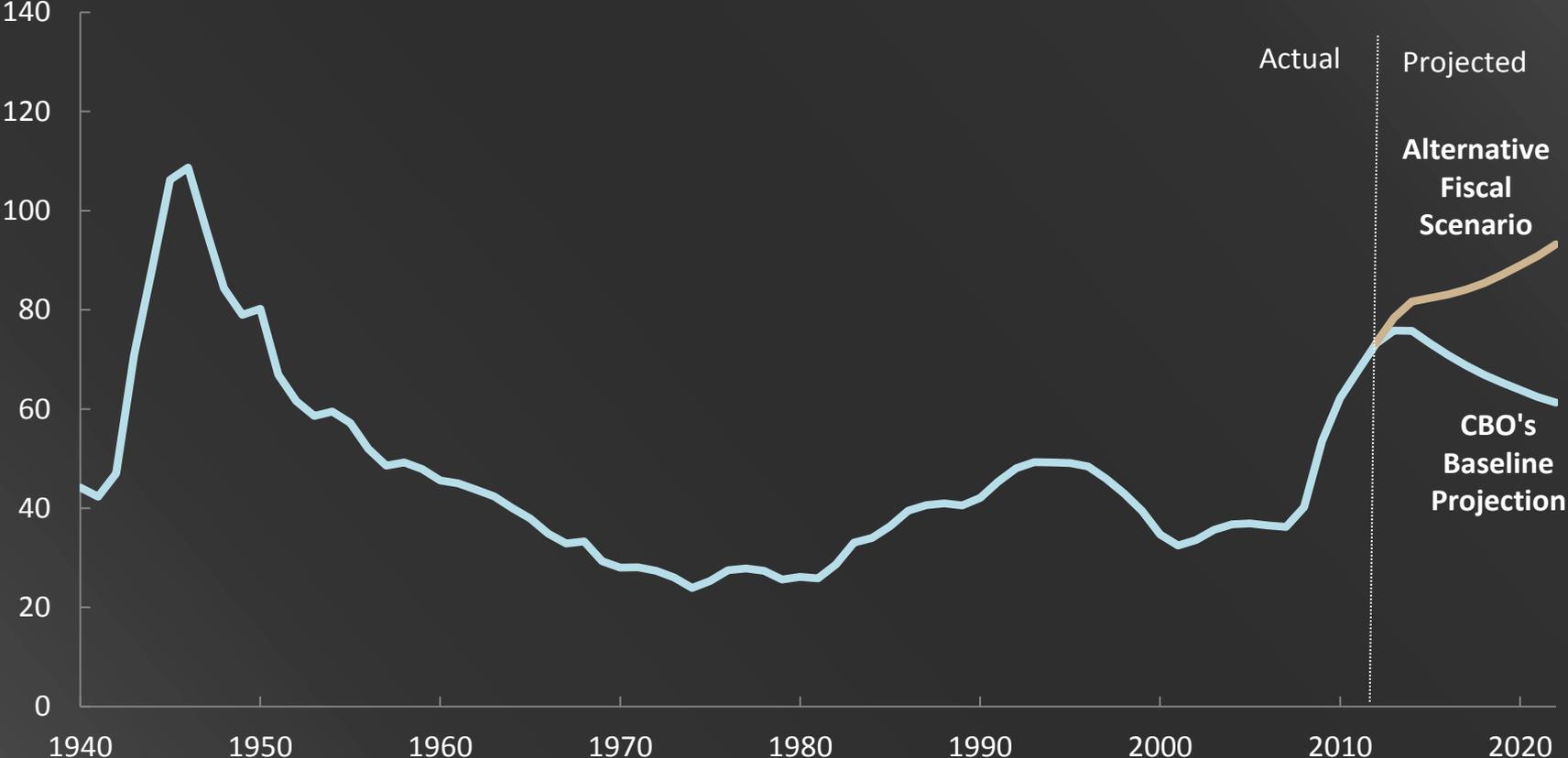
(Percentage of GDP)



Estimates from CBO's Updated Budget Projections: Fiscal Years 2012 to 2022 (March 2012).

# Federal Debt Held by the Public

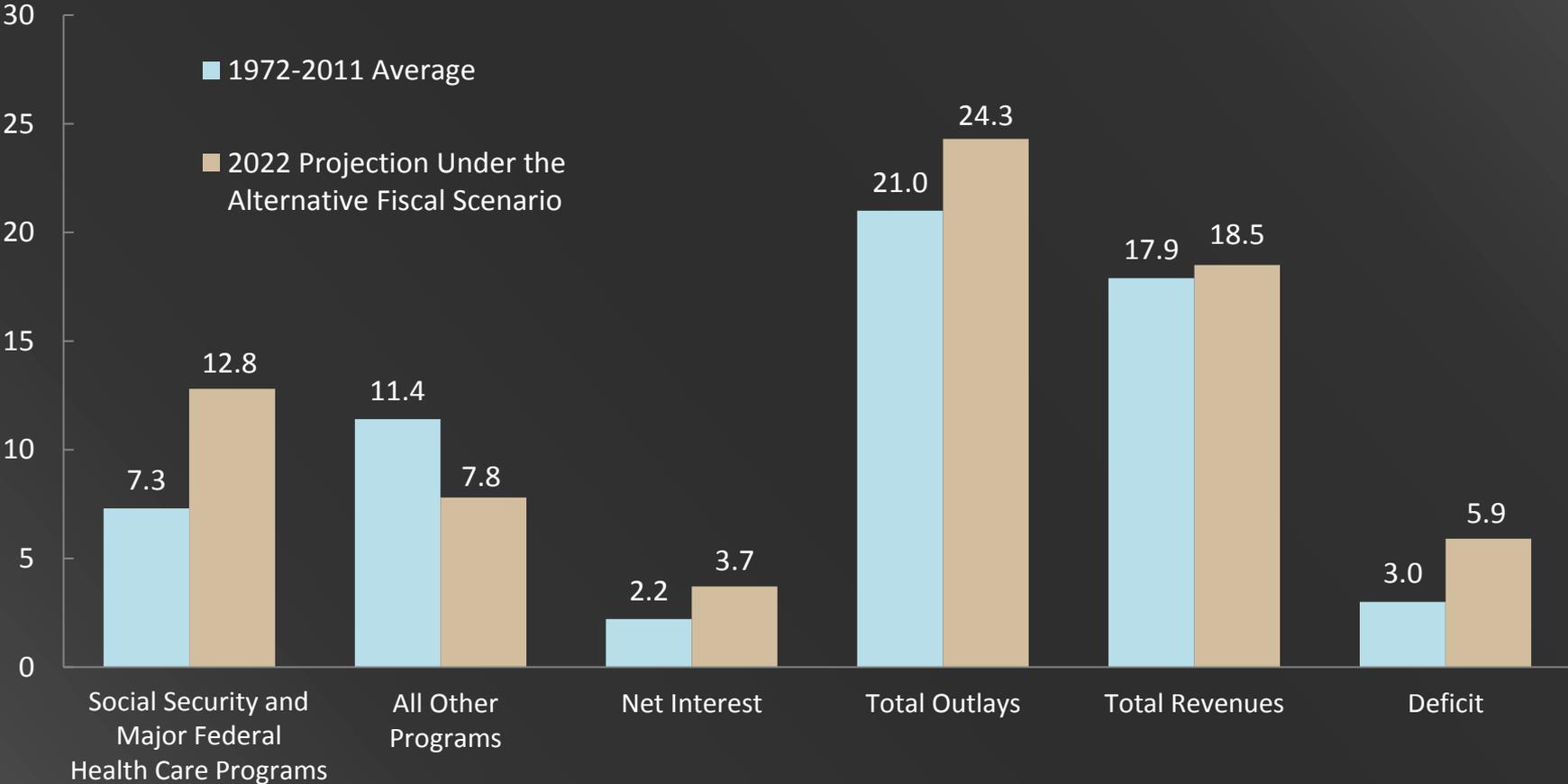
(Percentage of GDP)



Estimates from CBO's Updated Budget Projections: Fiscal Years 2012 to 2022 (March 2012).

# Components of the Federal Budget as Shares of GDP: 1972-2011 Average and 2022 Projection Under the Alternative Fiscal Scenario

(Percentage of GDP)



Estimates from CBO's Updated Budget Projections: Fiscal Years 2012 to 2022 (March 2012).

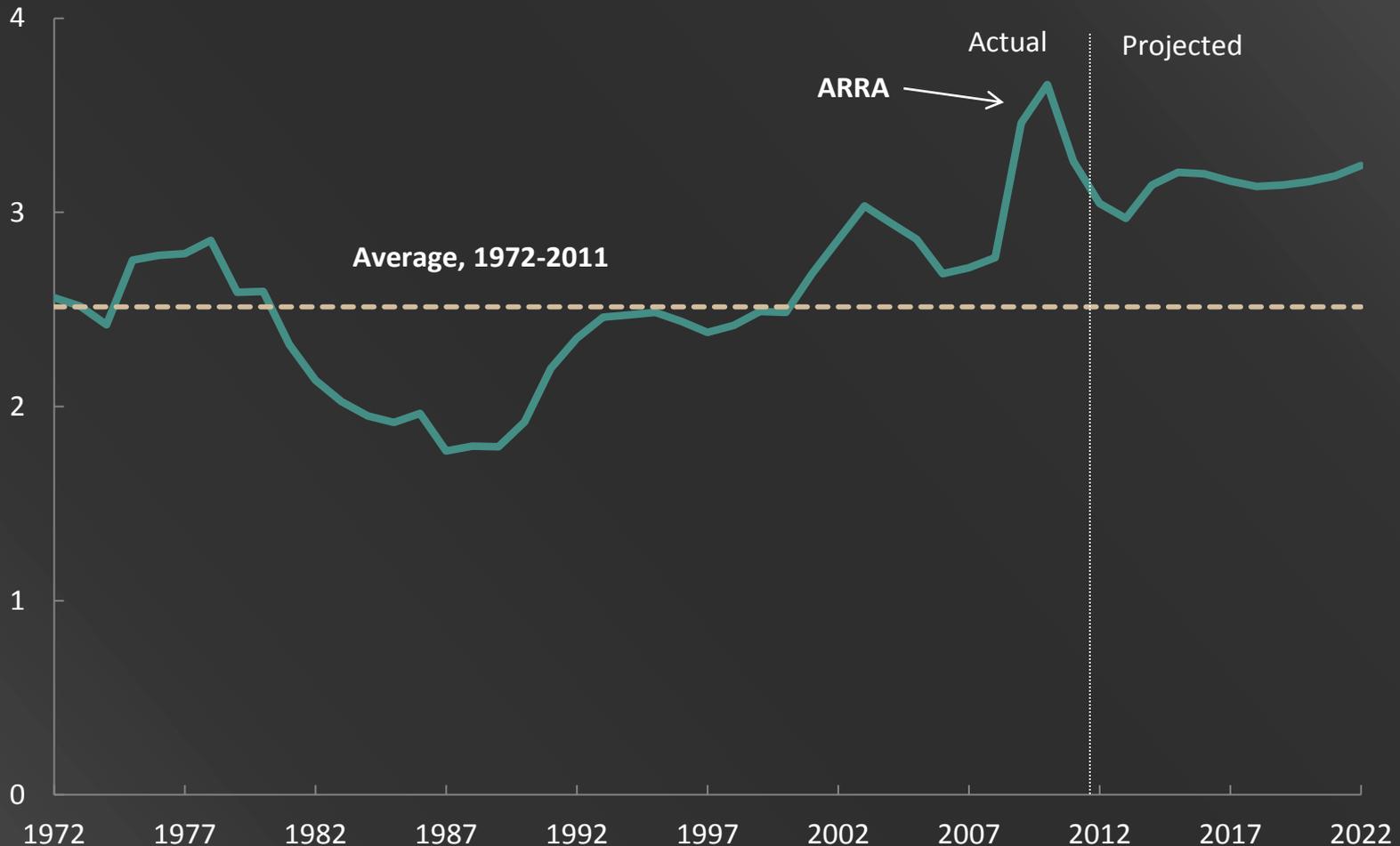
# Selected Tax Expenditures Providing Support for State and Local Governments

	Percentage of GDP		Percent Change
	2012	2015	
Deductibility of Property Taxes on Owner-Occupied Homes	} 0.6	} 0.8	+36%
Deductibility of Nonbusiness State and Local Taxes Other than on Owner-Occupied Homes			
Exclusion of Interest on State and Local Bonds			

Source: Joint Committee on Taxation. The temporarily higher exemption amounts that have limited the impact of the AMT since 2001 expired at the end of December 2011; if relief from the AMT were extended, the amounts shown here would be slightly higher.

# Federal Grants-in-Aid to State and Local Governments

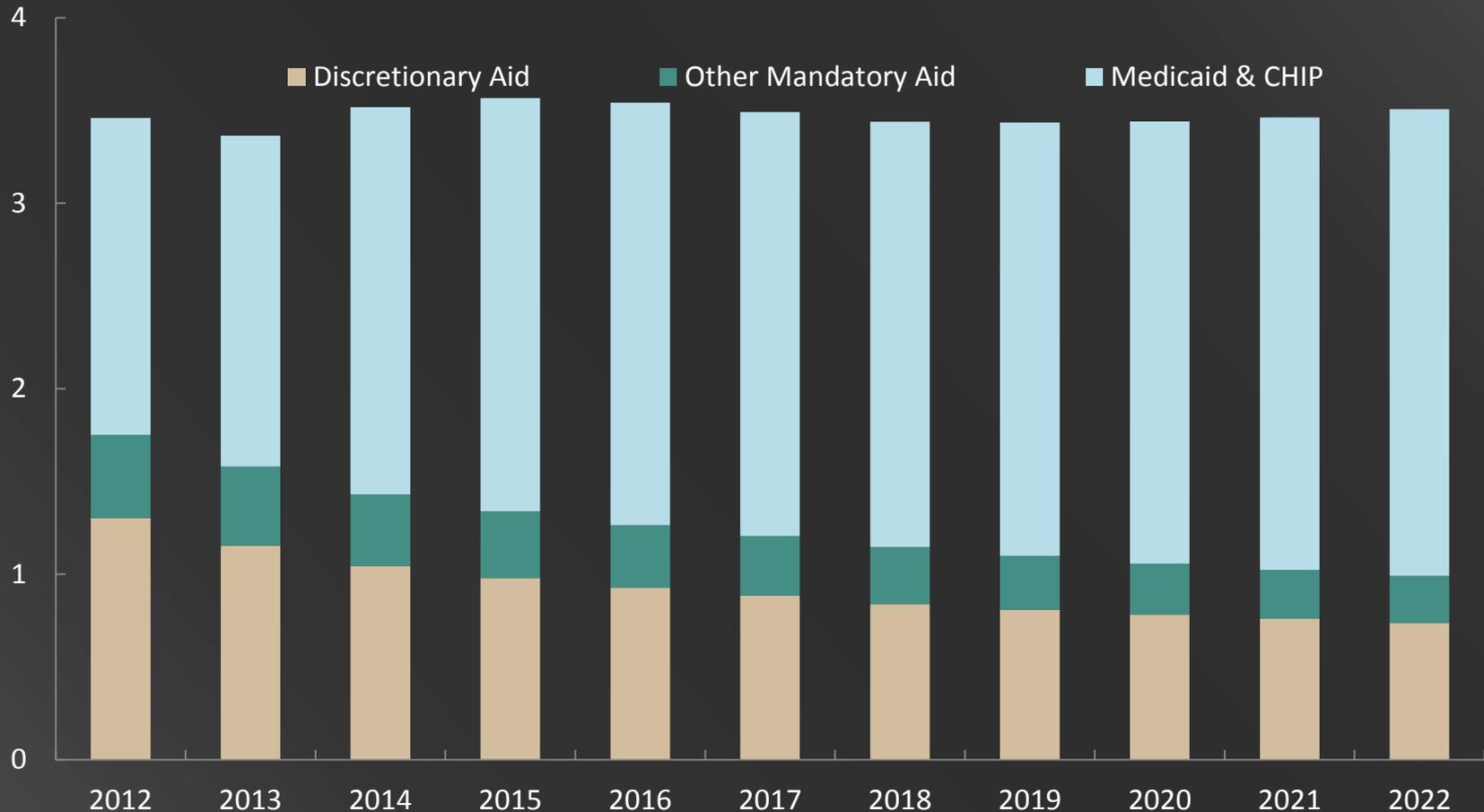
(Percentage of GDP)



Note: Preliminary estimates using the framework of the National Income and Product Accounts, including grants-in-aid and excluding most transportation spending. ARRA = American Recovery and Reinvestment Act (the source of the increase in 2009 and 2010).

# Projected Federal Spending Aiding State and Local Governments, by Type of Aid

(Percentage of GDP)



Note: Preliminary estimates using the framework of the National Income and Product Accounts, including grants-in-aid and capital transfers (most transportation spending). Derived from CBO's March 2012 baseline projections of federal expenditures. CHIP = Children's Health Insurance Program.

# Projected Spending on Medicaid and CHIP

		Percentage of GDP		Percent Change
		2012	2022	
Medicaid	}	1.7	2.5	+47%
Children's Health Insurance Program				

Estimates from CBO's *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012). Amounts do not include the state share of spending on these programs.

# Projected Spending on Selected Income Security Programs

	Percentage of GDP		Percent Change
	2012	2022	
Child Nutrition Programs	0.8	0.5	-35%
Temporary Assistance to Needy Families			
SNAP Administration			
Foster Care and Permanency			
Child Support Enforcement			

Estimates from CBO's *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012).

# How will the Budget Control Act (BCA) Affect Federal Spending?

The BCA established caps on certain types of discretionary funding, called for a process to achieve additional deficit reduction, and set up automatic enforcement procedures. The BCA:

- Limits cuts in most Medicare benefits to 2 percent;
- Exempts many mandatory programs—including Social Security, and Medicaid, CHIP, SNAP, child nutrition, and other income security programs;
- Exempts most transportation programs; and
- Cuts most defense and nondefense discretionary programs—including education, housing and others.

# Sequestration of Discretionary Programs in 2013

Under current law for 2013, cuts for most discretionary programs will be achieved by automatically canceling a portion of their budgetary resources (in an action known as sequestration) starting in January of that year.

- Cuts will be across-the-board, proportional reductions in budgetary resources for most discretionary programs in the appropriations bills for 2013.
- Cuts are scheduled to occur regardless of the amount of funding that Congress chooses to appropriate for 2013.

CBO projects that nondefense discretionary spending will be 5 percent lower in 2013 than if discretionary funding grew from 2012 amounts at the rate of inflation.

# Cap Reductions for Discretionary Programs from 2014 to 2021

Automatic cuts will be achieved by lowering the caps on discretionary budget authority as specified in the Budget Control Act.

Appropriations committees and Congress will then decide how to allocate funding within those newly reduced caps.

CBO projects that nondefense discretionary spending will be 10 percent lower in 2021 than if discretionary funding grew from 2012 amounts at the rate of inflation.

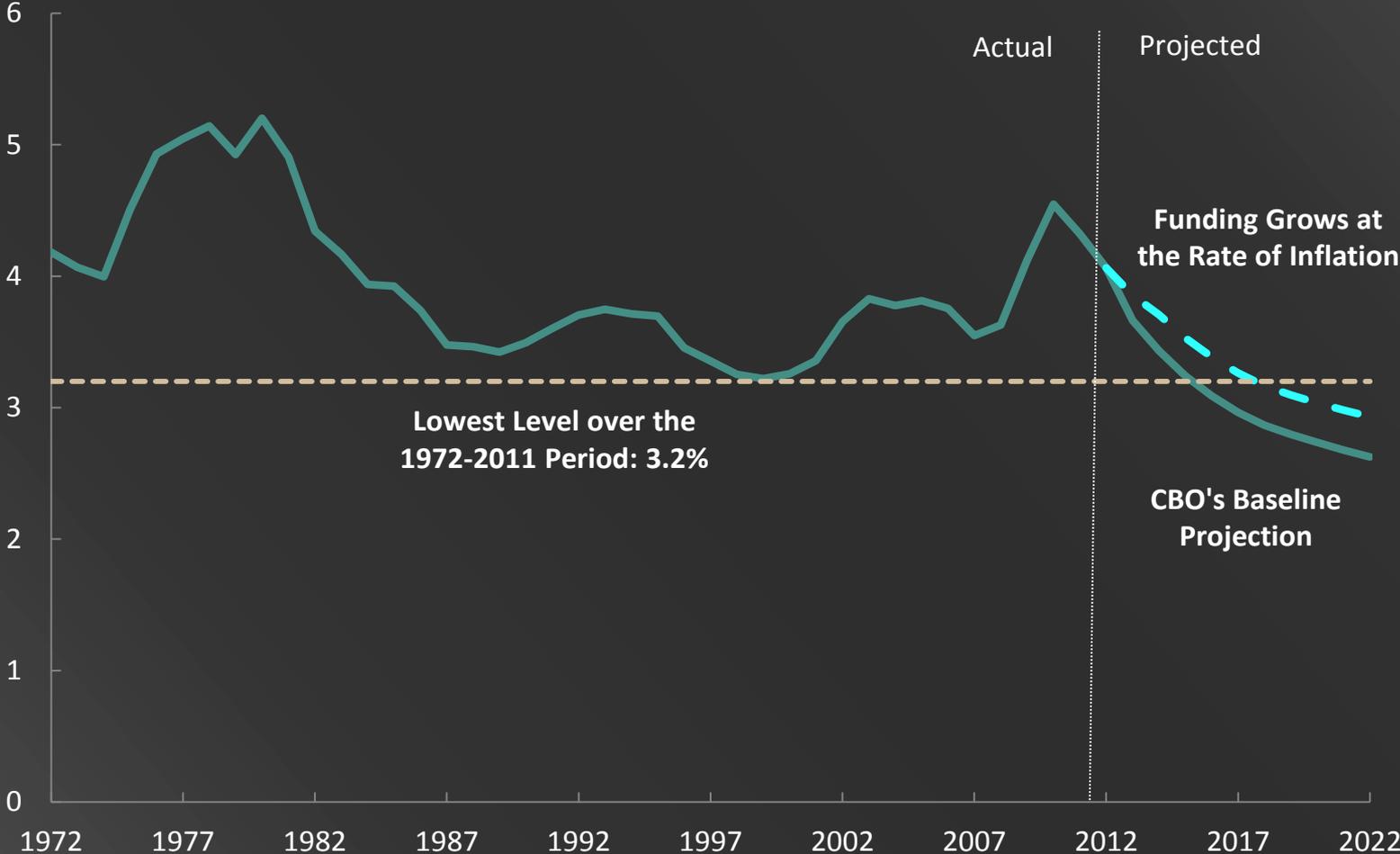
# Nondefense Discretionary Spending in CBO's Baseline

	Percentage of GDP		Percent Change
	2012	2022	
Transportation	4.1	2.6	-35%
Education			
Housing			
Other Programs Not Aiding States			

Estimates from CBO's Updated Budget Projections: Fiscal Years 2012 to 2022 (March 2012).

# Nondefense Discretionary Spending, Actual and Projected

(Percentage of GDP)



Estimates from CBO's Updated Budget Projections: Fiscal Years 2012 to 2022 (March 2012).